



# A Performance Audit of GOED's Corporate Incentives Program

*November 19, 2014*

David Pulsipher, Director of Performance Audit  
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# Audit Recommendations

## Legislative Recommendations:

- Defining key terms and minimum thresholds for company performance
- Additional legislative oversight and review of GOEDS awards

## GOED Recommendations:

- Improve the post performance assessment process



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# Issue 1

1. Enhancing Oversight at GOED Will Improve Corporate Incentives Accountability
2. A Complete Cost Benefit Analysis can Help Establish Minimum Performance Thresholds for EDTIF Recipients
3. Insufficient Post-Performance Controls Led to Questionable Incentive Awards



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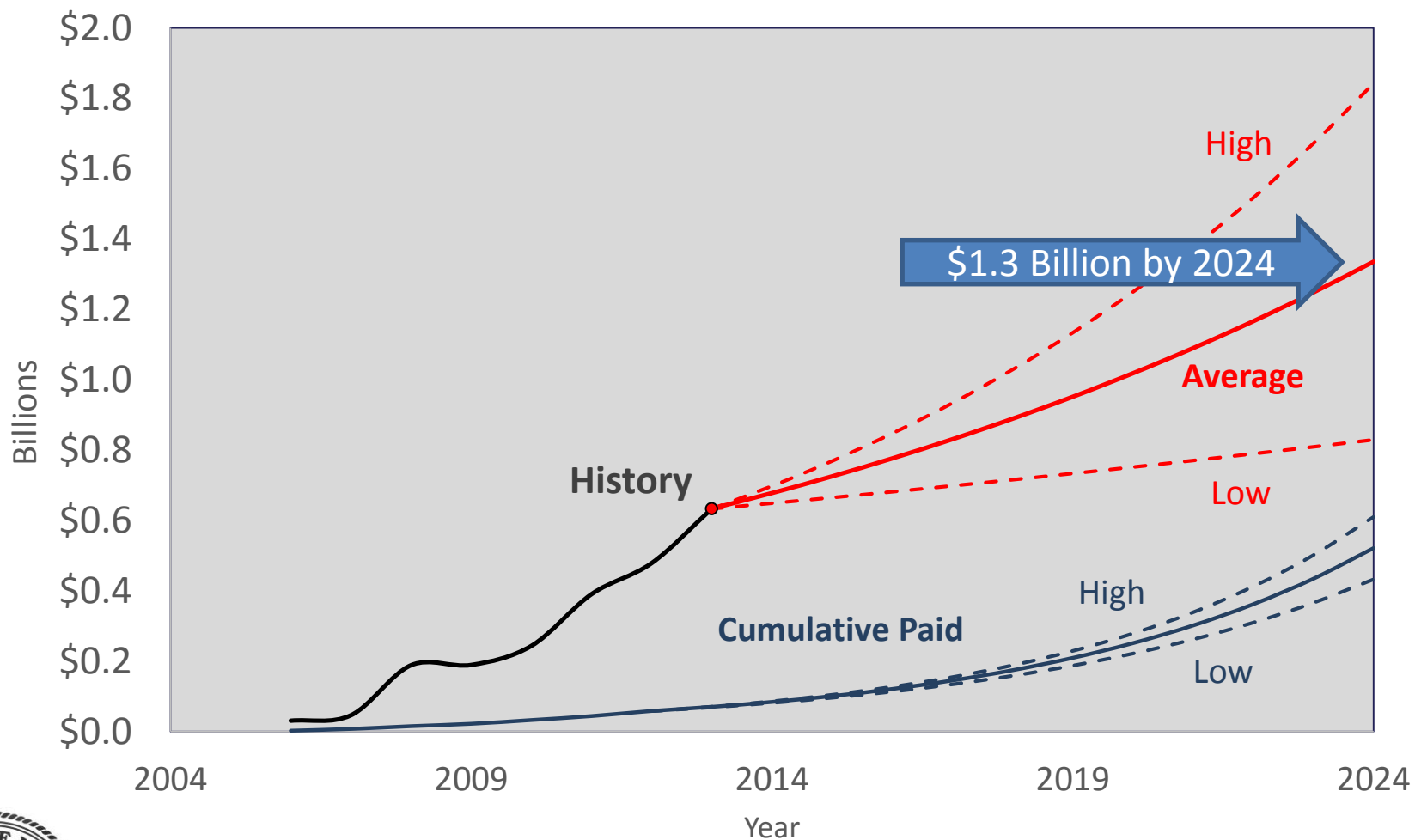
# Economic Development Incentives Act

- High Paying Jobs:
  - The Legislature found that “economic development initiatives and interests of state and local economic development officials should be aligned and united in the *creation of higher paying jobs that will lift the wage levels* of the communities in which those jobs will be created.” Utah Code 63M-1-2402(1)(c)
  - The EDTIF statute defines “high paying jobs” as employment positions with annual wages that “*compare favorably against the average wage* of a community in which the employment positions will be created.” Utah Code 63M-1-2403(4)(a)
  - Note: We understand “wages” to reflect wages entered into Box 1 on an IRS Form W-2 (aka W-2 wages).



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# EDTIF Long-Term Commitment



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For additional information, see  
Report pp. 61-62.

# GOED Has Broad Authority to Issue Corporate Incentives

Company K Potential Award Estimates	Years			
	5	10	15	20
30%	\$209,000	\$620,000	\$1,098,000	<b>\$1,652,000</b>
25%	\$174,000	\$517,000	\$915,000	\$1,376,000
20%	\$139,000	\$414,000	\$732,000	\$1,101,000
15%	\$104,000	\$310,000	\$549,000	\$826,000
10%	\$70,000	\$207,000	\$366,000	\$551,000
5%	<b>\$35,000</b>	\$103,000	\$183,000	\$275,000



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For additional information, see  
Report p. 48.

# Key Recommendations

- Periodically determine when the current allowance of an incentive of up to 30% for 20 years is appropriate to accomplish the state's economic development goals
- Consider requiring a thorough independent audit of the corporate incentives program at least every third year
- Consider requiring an annual independent review of incentive performance statistics prior to the Legislative General Session



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# Issue 2

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# GOED Gradually Reduced Corporate Incentive Requirements



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For additional information, see  
Report p. 29.

# GOED Inflates Wages by Including Health Benefits

- GOED started including health benefits in 2010
- Health benefits are not included in the DWS wage threshold
- Companies can claim any amount for health benefits and GOED does not verify the claim

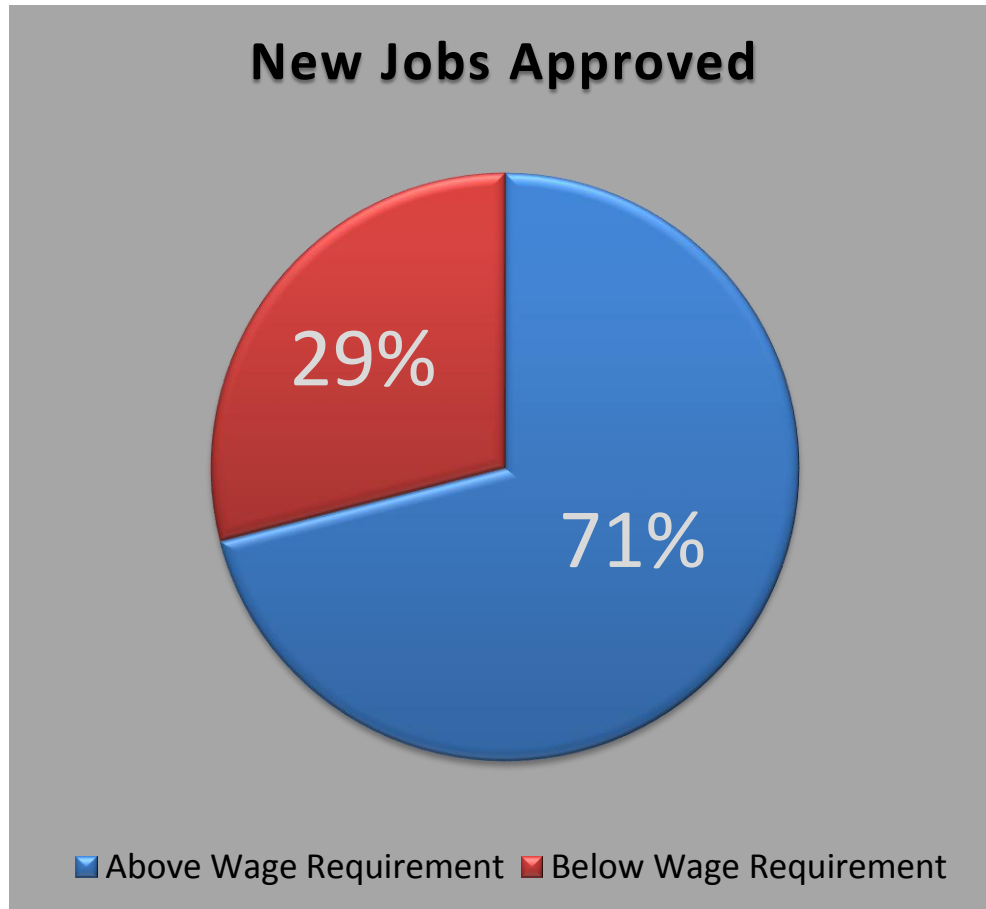
Company	Contractual Wage Requirement	Projected Avg. Company Wages	% of Projected Avg. Wage Requirement	Projected Avg. Company Wage w/ Health Benefits	% of Projected Avg. Wage Requirement w/ Benefits
Company G	\$56,000	\$48,000	85.7%	\$60,000	107.1%
Company H	\$56,000	\$44,000	78.6%	\$56,000	100.0%



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For additional information, see  
Report p. 35.

# GOED Incent Jobs that Pay Below the Wage Requirement



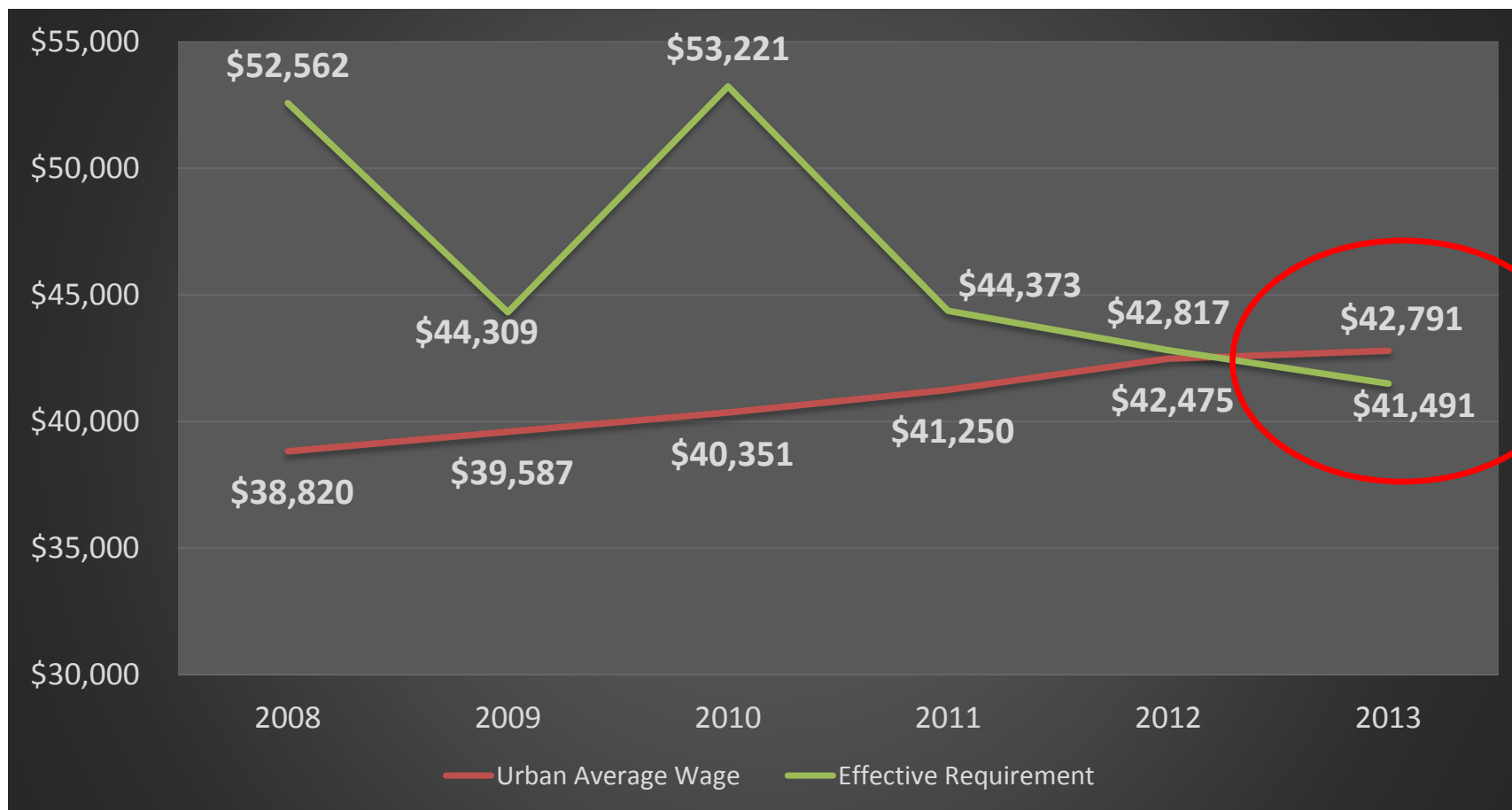
- 29% of new jobs project to pay **below** contractual wage requirements
- 85% of GOED's 2013 press releases misrepresent company wage estimates

For additional information, see  
Report pp. 33-34, 55-58.



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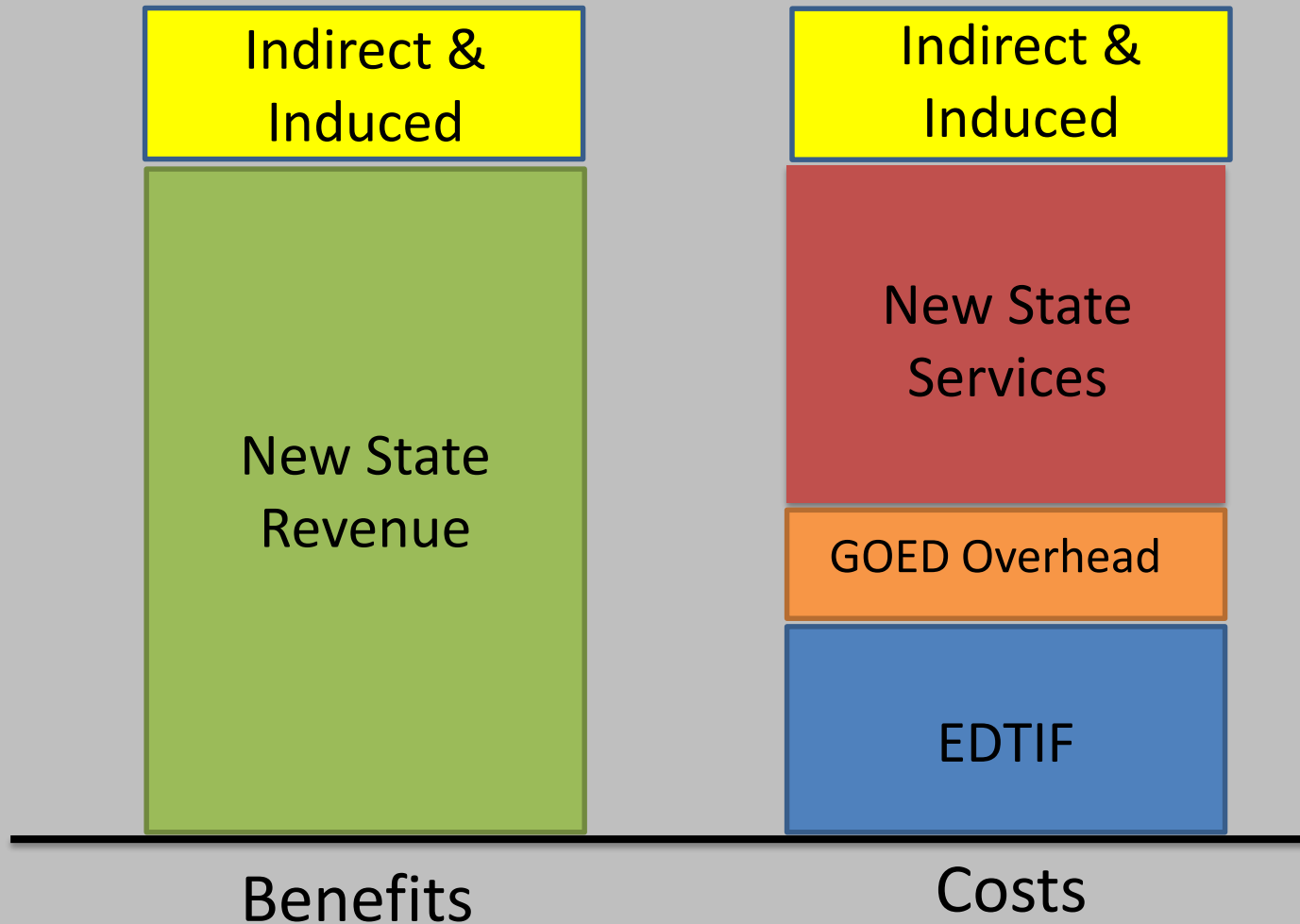
# GOED's Effective Wage Requirement for Incentive Awards Decreased While the County Average Wage Increased



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For additional information, see  
Report p. 30.

# Cost Benefit Analysis



# Key Recommendations

- The Legislature should clearly define the minimum threshold newly created high paying jobs must meet to receive a corporate incentive award.
- Clearly define key terms that influence the amount of corporate incentives given to companies
- The Legislature evaluate the long-term fiscal commitment of the state's corporate incentives program to ensure that the financial commitment provides the desired cost-benefit tradeoff for the state



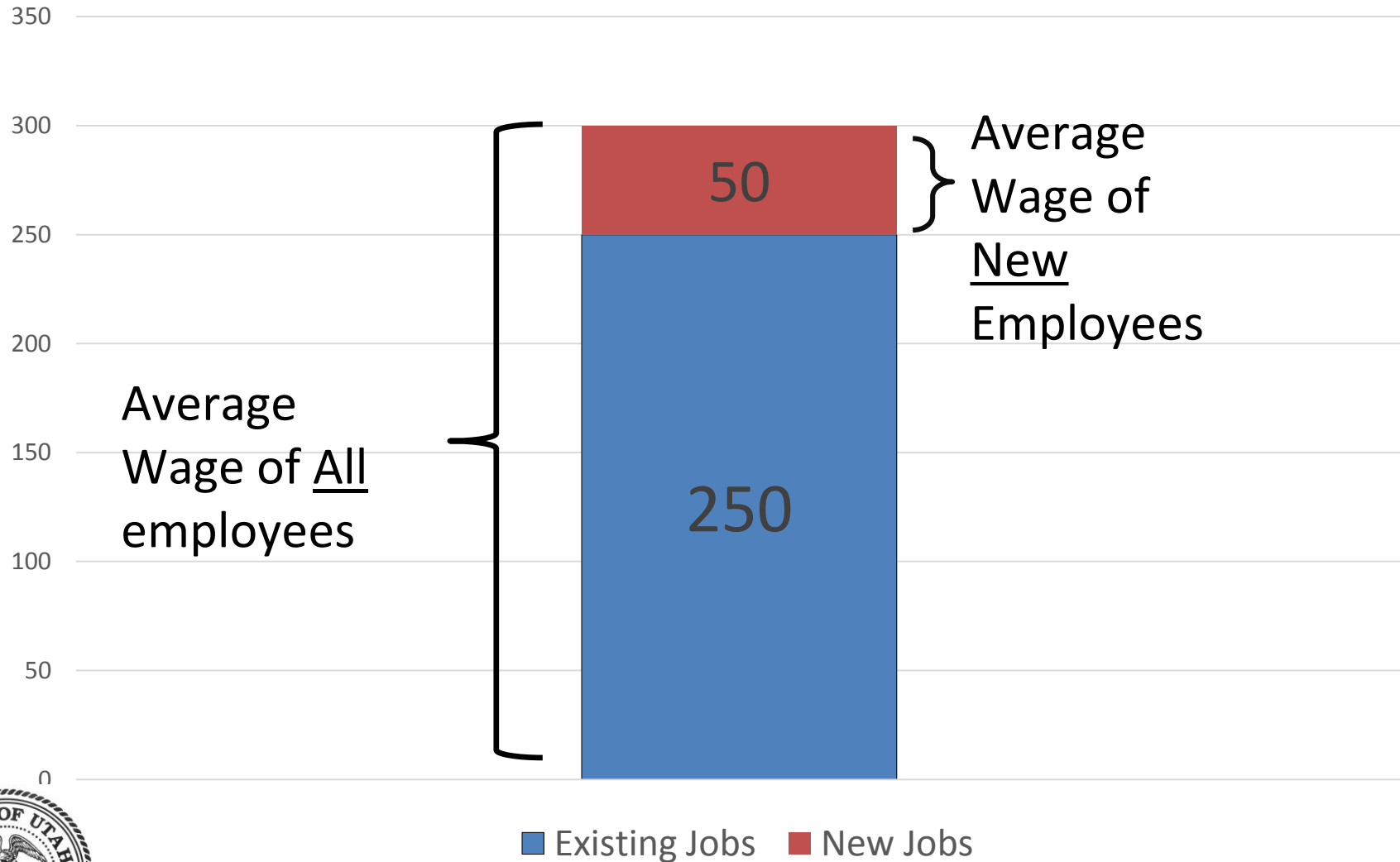
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# GOED Includes *Existing* Company Employees to Calculate Average Company Wage



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# GOED Uses Inconsistent Techniques to Review Company Performance

- GOED removes low paying jobs from the average to boost the company salaries
- GOED allows some companies to count 3rd party contractors as “new employee” jobs
- GOED allows some companies to include company-paid benefits with employee wages

No policy exists for how and when to apply these techniques in the post-performance review



# Company B

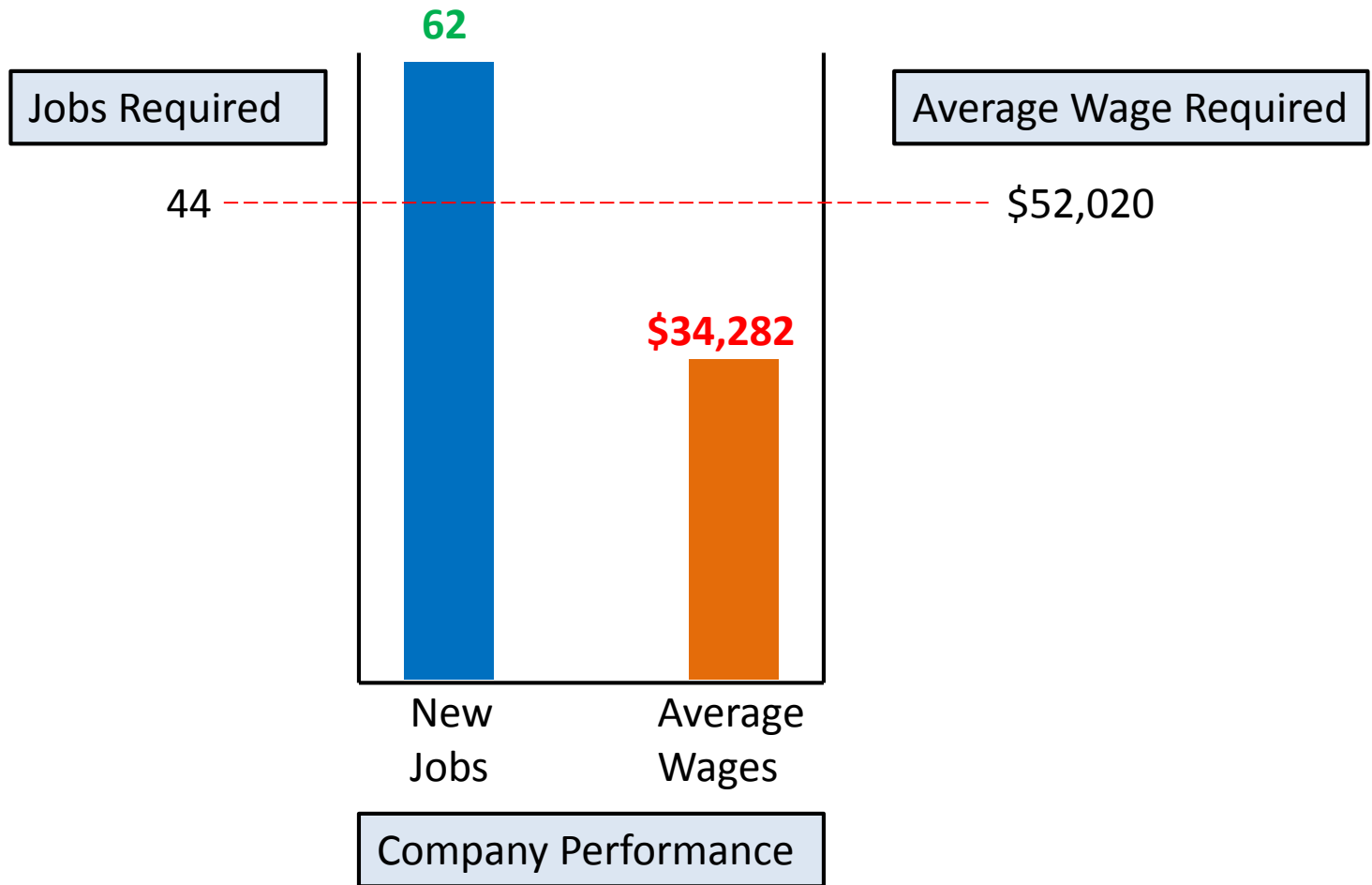
## Minimum Contractual Criteria

- New Jobs: 44
  - 50% of 88 projected positions
- Average Wage: \$52,020
  - Total annual average salary for employees for the Project is equal to or greater than 125% of the average county wage



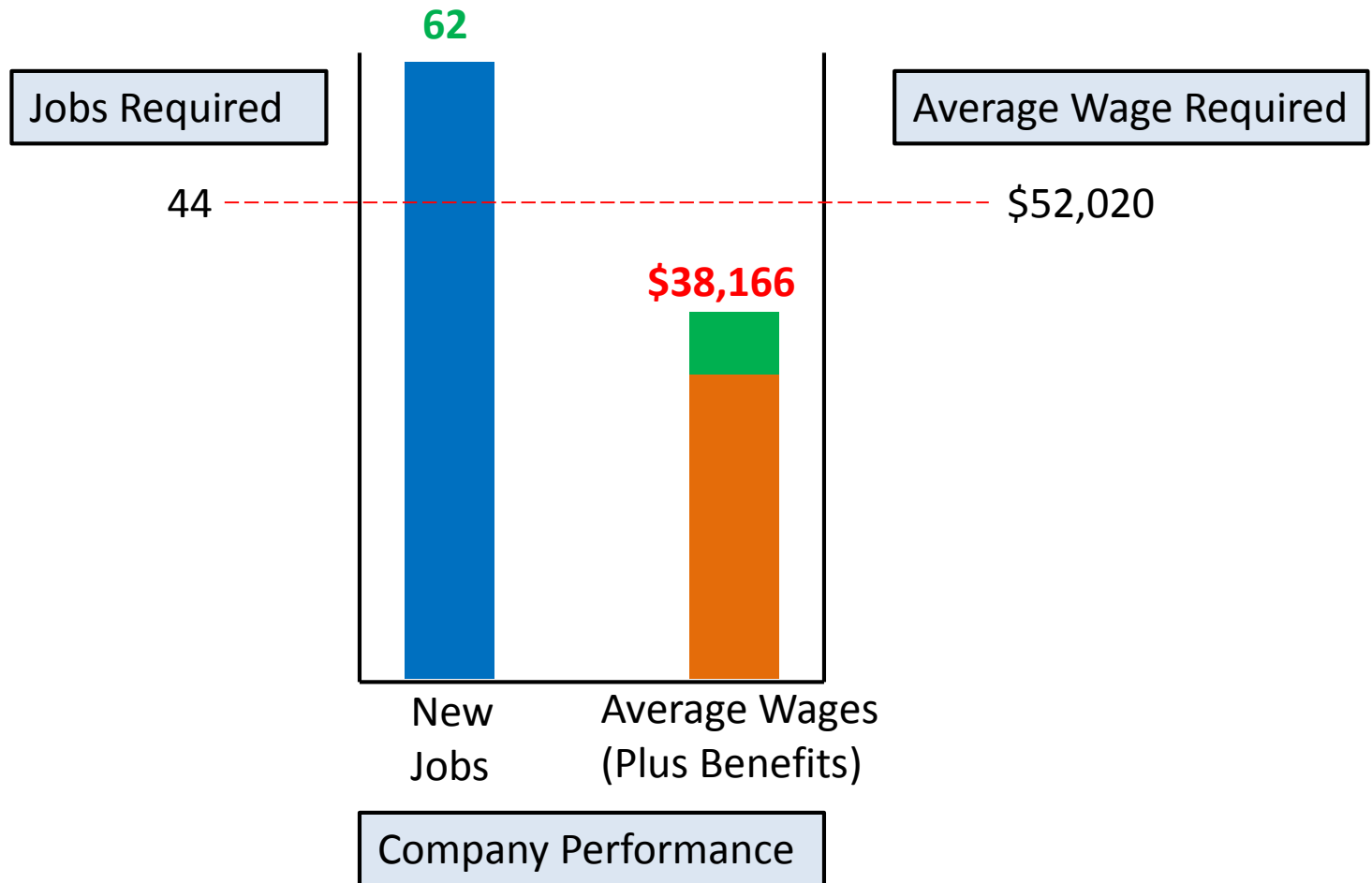
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# Company B



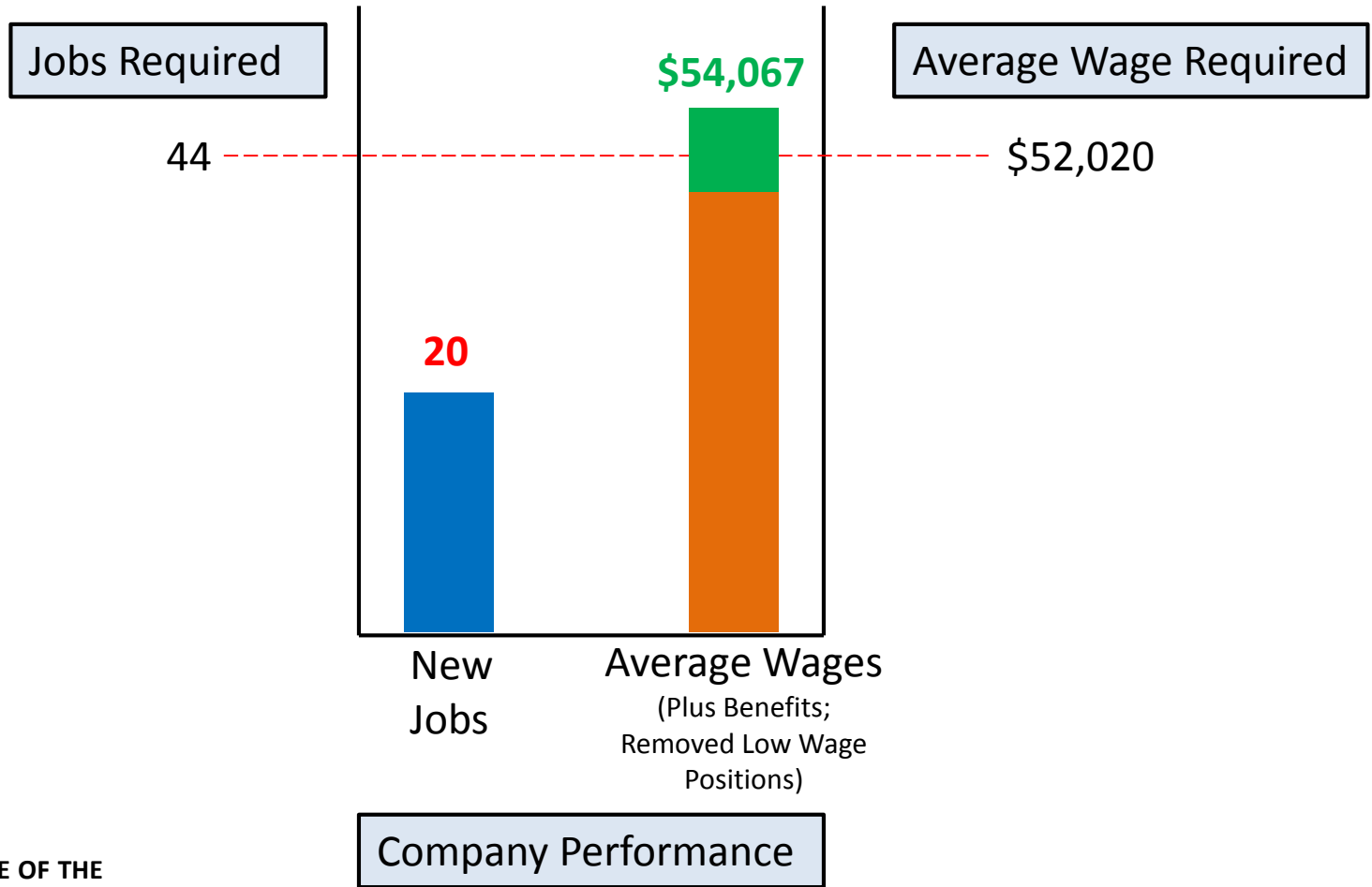
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# Company B



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# Key Recommendations

1. GOED should use “new” employee wages to determine if a company qualifies for a corporate incentive award
2. GOED should create formal policies for how the post-performance review should be conducted that clearly document the criteria used to assess company performance





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